

Calendar No. 402

103D CONGRESS
2D SESSION

S. 318

[Report No. 103-248]

A BILL

To provide for the energy security of the Nation through encouraging the production of domestic oil and gas resources in deep water on the Outer Continental Shelf in the Gulf of Mexico, and for other purposes.

APRIL 11, 1994

Reported with amendments

Calendar No. 402

103^D CONGRESS
2^D SESSION

S. 318

[Report No. 103-248]

To provide for the energy security of the Nation through encouraging the production of domestic oil and gas resources in deep water on the Outer Continental Shelf in the Gulf of Mexico, and for other purposes.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 4 (legislative day, JANUARY 5), 1993

Mr. JOHNSTON (for himself, Mr. KRUEGER, and Mr. BREAUX) introduced the following bill; which was read twice and referred to the Committee on Energy and Natural Resources

APRIL 11, 1994

Reported by Mr. JOHNSTON, with amendments

[Omit the part struck through and insert the part printed in italic]

A BILL

To provide for the energy security of the Nation through encouraging the production of domestic oil and gas resources in deep water on the Outer Continental Shelf in the Gulf of Mexico, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 That this Act may be referred to as the “Outer Continen-
2 tal Shelf Deep Water Royalty Relief Act”.

3 SEC. 2. AMENDMENTS TO THE OUTER CONTINENTAL
4 SHELF LANDS ACT.—The Outer Continental Shelf Lands
5 Act, as amended, is amended by redesignating section
6 8(a)(3) (43 U.S.C. 1337(a)(3)) as section 8(a)(3)(A) and
7 by adding at the end thereof the following:

8 “(B) The Secretary may, in order to promote
9 development and new production on a producing or
10 non-producing lease, through primary, secondary, or
11 tertiary recovery means, or to encourage production
12 of marginal or uneconomic resources on a producing
13 or non-producing lease, reduce or suspend any roy-
14 alty or net profit share set forth in the lease.

15 “(C)(i) Notwithstanding the provisions of this
16 Act other than this subparagraph, no royalty pay-
17 ment shall be due on new production, as defined in
18 ~~clause (ii)~~ *clause (iii)* of this subparagraph, from
19 any lease located in water depths of 200 meters or
20 greater in the Western and Central Planning Areas
21 of the Gulf of Mexico, *and the Eastern Planning*
22 *Area of the Gulf of Mexico west of the lateral seaward*
23 *boundary between the States of Florida and Alabama,*
24 *or for any lease in the frontier areas of Alaska, which*
25 *shall, at a minimum, include those areas with sea-*

1 sonal sea ice, long distances to existing pipelines and
2 ports, or a lack of production infrastructure, until the
3 capital costs directly related to such new production
4 have been recovered by the lessee out of the proceeds
5 from such new production.

6 “(ii) With respect to any lease in existence on
7 the date of enactment of the Outer Continental Shelf
8 Deep Water Royalty Relief Act meeting the require-
9 ments of this subparagraph, upon application by the
10 lessee, the Secretary shall determine within ninety
11 days of such application whether new production
12 from such lease would be economic in the absence of
13 the relief from the requirement to pay royalties pro-
14 vided for by clause (i) of this subparagraph. In mak-
15 ing such determination, the Secretary shall consider
16 all costs associated with obtaining, exploring, develop-
17 ing, and producing from the lease. The lessee shall be
18 afforded an opportunity to provide information to the
19 Secretary prior to such determination. Such applica-
20 tion may be made on the basis of an individual lease
21 or unit (as defined under the provisions of 30 CFR
22 part 250). If the Secretary determines that such new
23 production would be economic in the absence of the
24 relief from the requirement to pay royalties provided
25 for by clause (i) of this subparagraph, the provisions

1 of clause (i) of this subparagraph shall not apply to
 2 such production. Redetermination of the applicability
 3 of clause (i) shall be undertaken by the Secretary
 4 when requested by the lessee upon significant change
 5 in the factors upon which the original determination
 6 was made. The Secretary shall make such redeter-
 7 mination within sixty days of such application. The
 8 Secretary may extend the time period for making any
 9 determination under this clause for thirty days if cir-
 10 cumstances so warrant. The lessee shall be notified in
 11 writing of any determination or redetermination and
 12 the reasons for and assumptions used for such deter-
 13 mination. In the event that the Secretary fails to
 14 make the determination or redetermination upon ap-
 15 plication by the lessee within the time period, together
 16 with any such extension thereof provided for by this
 17 clause, the relief from the requirement to pay royal-
 18 ties provided for by clause (i) shall apply to such pro-
 19 duction.

20 ~~“(ii)~~ (iii) For purposes of this subparagraph,
 21 the term—

22 “(aa) ‘capital costs’ shall be defined by the
 23 Secretary and shall include exploration costs in-
 24 curred after the acquisition of the lease and de-
 25 velopment costs directly related to new produc-

1 tion. The terms ‘exploration’ and ‘development’
2 shall have the same meaning contained in sub-
3 sections (k) and (l) of section 2 of this Act ex-
4 cept the term ‘development’ shall also include
5 any similar additional development activities
6 which take place after production has been ini-
7 tiated from such lease. Such capital costs shall
8 not include any amounts paid as bonus bids but
9 shall be adjusted to reflect changes in the
10 consumer price index, as defined in section
11 (1)(f)(4) of title 26 of the United States Code;
12 and

13 “(bb) ‘new production’ is—

14 “(I) any production from a lease from
15 which no royalties are due on production,
16 other than test production, prior to the
17 date of enactment of the Outer Continental
18 Shelf Deep Water Royalty Relief Act; or

19 “(II) any production resulting from
20 lease development activities pursuant to a
21 Development Operations Coordination Doc-
22 ument approved by the Secretary after the
23 date of enactment of the Outer Continental
24 Shelf Deep Water Royalty Relief Act; and

1 “~~(iii)~~ (iv) In any month during which the arith-
2 metic average of the closing prices for the earliest
3 delivery month on the New York Mercantile Ex-
4 change for Light Sweet crude oil exceeds \$28.00 per
5 barrel, any production of oil subject to relief from
6 the requirement to pay royalties under clause (i) of
7 this subparagraph shall be subject to royalties at the
8 lease stipulated rate, and the lessee’s gross proceeds
9 from such oil production, less Federal royalties, dur-
10 ing such month shall be counted toward the recovery
11 of capital costs under clause (i) of this subpara-
12 graph.

13 “~~(iv)~~ (v) In any month during which the arith-
14 metic average of the closing prices for the earliest
15 delivery month on the New York Mercantile Ex-
16 change for natural gas exceeds \$3.50 per million
17 British thermal units, any production of natural gas
18 subject to relief from the requirement to pay roy-
19 alties under clause (i) of this subparagraph shall be
20 subject to royalties at the lease stipulated rate, and
21 the lessee’s gross proceeds from such natural gas
22 production, less Federal royalties, during such
23 month shall be counted toward the recovery of cap-
24 ital costs under clause (i) of this subparagraph.

1 “~~(v)~~ (vi) The prices referred to in clauses ~~(iii)~~
 2 ~~and (iv)~~ clauses (iv) and (v) of this subparagraph
 3 shall be changed during any calendar year after
 4 ~~1993~~ 1994 by the percentage if any by which the
 5 consumer price index changed during the preceding
 6 calendar year, as defined in section (1)(f)(4) of title
 7 26 of the United States Code.”.

8 SEC. 3. REGULATIONS.—The Secretary shall promul-
 9 gate such rules and regulations as are necessary to imple-
 10 ment the provisions of this Act within one hundred and
 11 eighty days after the date of enactment of this Act.

12 *SEC. 4. AREA-WIDE LEASING.—The Secretary shall*
 13 *not implement the system of tract nomination for oil and*
 14 *gas leasing in the Central and Western Planning Areas of*
 15 *the Gulf of Mexico under the Outer Continental Shelf Lands*
 16 *Act, and shall use the existing area-wide system of leasing*
 17 *in such areas.*

18 *SEC. 5. REPORT TO CONGRESS.—(a) The Secretary*
 19 *shall review Federal regulations and policies within the*
 20 *Secretary’s jurisdiction which create barriers and disincen-*
 21 *tives that unnecessarily preclude new production, or result*
 22 *in premature abandonment or suspension of existing pro-*
 23 *duction of oil and gas on Federal lands, including the Outer*
 24 *Continental Shelf. Such review, conducted with the partici-*
 25 *pation of all interested parties, shall assess how Federal*

1 *policies could be modified to reduce compliance costs and*
2 *improve the cash flow of oil and gas operations on Federal*
3 *lands. The review shall include administrative compliance,*
4 *royalty collection, timing of operational and production*
5 *management requirements, such as permanent plugging*
6 *and abandonment of wells, and any other requirements*
7 *which unduly burden natural gas and oil exploration, pro-*
8 *duction and transportation on Federal lands.*

9 *(b) The Secretary shall evaluate the impact, if any,*
10 *of current royalty rates for oil and gas on Federal lands,*
11 *both onshore and offshore, on the viability of undeveloped*
12 *fields by general category, such as production volume, crude*
13 *quality, water depth, and distance from existing infrastruc-*
14 *ture. The review shall be based on current industry tech-*
15 *nology and cost information, and shall assess how a reduc-*
16 *tion in Federal oil and natural gas royalties would encour-*
17 *age development.*

18 *(c) The Secretary shall report to the Committee on En-*
19 *ergy and Natural Resources of the United States Senate and*
20 *to the United States House of Representatives on the review*
21 *required by this section and actions taken as recommended*
22 *pursuant to such review, or the reason such actions have*
23 *not been taken, within ninety days of the date of enactment*
24 *of this Act.*